

Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 IO-11 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04

NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04

TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00 OMB-01

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R 290612Z JAN 76

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 3885

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E.O. 11652: N/A

TAGS: EGEN, PK,

SUBJECT: FOLLOWUP TO SECRETARY'S INITIATIVES AT UN
SEVENTH SPECIAL SESSION

REFERENCE: STATE 012373, ISLAMABAD 0720,

SUMMARY: ECONOFFS WENT OVER MATERIAL IN FIRST REFTEL
WITH PLANNING COMMISSION CHIEF ECONOMIST MOIN BAQAI,
WHO WAS THE ONLY PAK DELEGATION MEMBER AT JAMAICA
SENT FROM ISLAMABAD. BAQAI'S DOMINANT REACTION TO
JAMAICA WAS ONE OF "DESPONDENCY", A FEELING WHICH HE
SAID WAS SHARED BY OTHER MSA PARTICIPANTS. HE RECOG-
NIZED THAT THE MEASURES AGREED UPON AT JAMAICA REPRESENTED
SOME ADVANCE FOR THE NEEDS OF THE LDCS. HE HAD BEEN
DISAPPOINTED, HOWEVER, AT THE REDUCTION IN THE AMOUNT
OF RESOURCE TRANSFER THESE MEASURES REPRESENTED, COMPARED
WITH EARLIER HOPES. IN PARTICULAR, HE MENTIONED THE
TRUST FUND, WHICH HE ESTIMATED WOULD HAVE ACCESS TO
ONLY \$400 MILLION ANNUALLY, AND THE LIBERALIZED
COMPENSATORY FINANCING FACILITY WHICH HE THOUGHT WOULD
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ADD RELATIVELY LITTLE TO THE AMOUNT OF RESOURCES AVAILABLE

TO HELP LDCS WITH THEIR BALANCE OF PAYMENTS PROBLEMS. THE LACK OF AGREEMENT ON A PERMANENT THIRD WINDOW AND ON AN INCREASE IN REAL TERMS IN IDA'S RESOURCES WERE ALSO A SERIOUS CONCERN FOR PAKISTAN. LOOKING AHEAD, HE SAID THAT "SOME KIND OF LEADERSHIP" HOPEFULLY FROM THE US, WAS NEEDED. HE THOUGHT THAT PAKISTAN LOOKED ON CIEC AS THE KEY FORUM FOR INTERNATIONAL DISCUSSIONS IN THE COMING MONTHS. END SUMMARY.

1. ECONOFFS CALLED ON PLANNING DIVISION CHIEF ECONOMIST MOIN BAQAI JANUARY 28 TO MAKE DEMARCHE REQUESTED IN FIRST REFTEL. BAQAI WAS A MEMBER OF GOP DELEGATION IN JAMAICA, AND HAS BEEN INVOLVED IN PREPARING THE GOP POSITION FOR OTHER INTERNATIONAL ECONOMIC MEETINGS AS WELL. THIS CONVERSATION FOLLOWED UP ON THE ONE REPORTED IN SECOND REFTEL, IN WHICH SIMILAR POINTS HAD BEEN MADE TO MFA DIRECTOR GENERAL (UN) MUNIR AKRAM IN THE CONTEXT OF A DISCUSSION OF CIEC.

2. BAQAI'S GENERAL REACTION TO JAMAICA, AND TO RECENT INTERNATIONAL ECONOMIC DISCUSSIONS GENERALLY, WAS ONE OF DISAPPOINTMENT. THE MEASURES AGREED ON THUS FAR WOULD RESULT IN AN ADDITION TO RESOURCE TRANSFER TO THE DEVELOPING COUNTRIES, BUT A FAR SMALLER ONE, HE FELT, THAN THEIR BALANCE OF PAYMENTS DEFICITS WOULD WARRANT. HE SAID THAT HIS DISAPPOINTMENT WAS SHARED BY OTHER LDC DELEGATIONS, PARTICULARLY THOSE REPRESENTING MSAS. THE MSAS HAD BEEN DEVASTATED BY WORLD PRICE CHANGES; SINCE THESE WERE "NOT OF THEIR (MSAS) MAKING," THEY FELT THAT OTHER COUNTRIES HAD A RESPONSIBILITY TO HELP FIND A REMEDY. BAQAI BELIEVED THAT NEITHER THE DEVELOPED COUNTRIES NOR THE RELATIVELY PROSPEROUS LDCS IN LATIN AMERICA AND EAST ASIA WERE SUFFICIENTLY AWARE OF THE SEVERITY OF THE PROBLEMS OF MSA COUNTRIES LIKE PAKISTAN.

3. THE TRUST FUND, HE SAID, WAS USEFUL, BUT AS PRESENTLY ENVISAGED PAKISTAN THOUGHT IT UNDERFUNDED. HE MENTIONED ANNUAL TRUST FUND OPERATIONS OF \$400 MILLION, AND CLEARLY HAD NO EXPECTATION THAT IMF'S GOLD SALES WOULD BE LIMITED OFFICIAL USE

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SUPPLEMENTED TO ANY SIGNIFICANT EXTENT BY VOLUNTARY NATIONAL CONTRIBUTIONS.

4. THE LIBERALIZATION OF THE COMPENSATORY FINANCING FACILITY (CFF), HE FELT, WOULD NOT MAKE MUCH DIFFERENCE TO PAKISTAN. HERE, HE FELT THAT THE MAIN PROBLEM WAS THE METHOD OF CALCULATING EXPORT SHORTFALL. IN A PERIOD OF INFLATION, ANY CALCULATION WHICH DEALT ONLY WITH DROPS

IN EXPORT EARNINGS COULD NOT HELP COUNTRIES LIKE PAKISTAN WHOSE EXPORTS EARNINGS NOMINALLY REMAINED THE SAME WHILE IMPORT COSTS HAD SOARED. PAKISTAN'S BALANCE OF PAYMENTS CRISIS WAS THE RESULT PRIMARILY OF IMPORT PRICE INCREASES AND THE CFF PROVIDED NO ASSISTANCE FOR THIS.

5. THE GREATEST BENEFIT TO PAKISTAN, HE FELT, WOULD COME FROM THE DECISION TO WIDEN THE IMF TRANCHES. THIS, HE FELT, GAVE PAKISTAN A SUBSTANTIAL ADDITIONAL MARGIN OF SAFETY -- "LIKE AN ADDITION TO THE RESERVES OF \$100-\$120 MILLION."

6. PAKISTAN WAS ALSO DISAPPOINTED AT THE RELATIVELY SMALL SCALE OF THE THIRD WINDOW AND THE FAILURE OF PARTICIPANTS THUS FAR TO MAKE IT PERMANENT. OF EVEN GREATER CONCERN TO THE GOP WAS THE LACK OF CONSENSUS ON A REAL INCREASE IN IDA LENDING FUNDS.

7. A VITAL INGREDIENT FOR FUTURE DISCUSSIONS OF THESE AND OTHER INTERNATIONAL ECONOMIC ISSUES, HE FELT, WAS "SOME KIND OF LEADERSHIP" FOR WHICH BAQAI SEEMED TO BE LOOKING TO THE US. HE WAS CONCERNED AT THE CAUTION OF US STATEMENTS ON IDA. WHEN WE MENTIONED THE DESIRE OF THE USG TO AVOID MAKING PROMISES IT COULD NOT FULFILL, HE RESPONDED THAT WITHOUT OUR LEADERSHIP (AND PRESUMABLY A GENEROUS POSTURE BY THE US) THE VARIOUS INTERNATIONAL EFFORTS TO MUSTER ADDITIONAL AID RESOURCES WERE LIKELY TO FOUNDER. LOOKING AHEAD, HE SAID, PAKISTAN FELT THAT CIEC WOULD BE THE KEY FORUM FOR INTERNATIONAL ECONOMIC DISCUSSIONS. HIS QUESTIONS ON US ATTITUDES TOWARD THE CIEC COMMISSIONS SUGGESTED THAT THERE TOO HE BELIEVED THAT THE US ATTITUDE WOULD BE CRITICAL.

BYROADE

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